



RIO ALTO EXPLORATION LTD.

ANNUAL REPORT 1980

HOWARD ROSS LIBRARY
OF MANAGEMENT
JAN 5 1982
McGILL UNIVERSITY

CORPORATE INFORMATION

DIRECTORS

Ronald J. Allen	Vancouver, B.C.
Edward A. Brownless	Calgary, Alberta
Carman W. Byler	Calgary, Alberta
Douglas W. Hilland	Calgary, Alberta
Francis C. Mannas	Calgary, Alberta
James R. Smith	Calgary, Alberta
Bruno J. Todesco	Calgary, Alberta

OFFICERS

Douglas W. Hilland	Chairman of the Board
Edward A. Brownless	President
William W. Quon	Treasurer
Janet P. Hille	Secretary
Samuel W. Ingram	Assistant Secretary
Bruno J. Todesco	Assistant Secretary

HEAD OFFICE

710, 610 8 Ave. S.W.
Calgary, Alberta
T2P 1G5

SUBSIDIARIES

Rio Alto Exploration Inc.
North American Nuclear Limited
Gamma Resources Ltd.

BANK

Royal Bank of Canada

TRANSFER AGENT AND REGISTRAR

Canada Trust Company

LEGAL COUNSEL

McLaws & Company

AUDITORS

Collins Barrow

STOCK LISTING

Toronto Stock Exchange
Alberta Stock Exchange

The Annual Meeting will be held at
3:00 p.m., May 28, 1981 in the Penthouse
of the Palliser Hotel, Calgary, Alberta

TO THE SHAREHOLDERS

During 1980 Rio Alto made significant progress towards increasing its activities in the petroleum industry while continuing to add to its mining interests.

In the Yukon, under Joint Venture Agreements, approximately \$900,000 was expended on exploration and drilling at Rusty Springs and approximately \$870,000 on exploration and mining operations at Stormy Mountain. Under these two Agreements, our joint venture participant, E. & B. Explorations, Inc., has earned approximately a 45 percent interest at Rusty Springs and a 75 percent interest at Stormy Mountain. These programs will be dealt with in this Report.

As part of the Company's diversification, certain production and equipment in the Dodsland area of Saskatchewan was sold for the sum of \$475,000. These funds were used to acquire a land position and participate in the drilling of petroleum prospects in the United States.

The Company was called for trading on the Toronto Stock Exchange on June 16, 1980 and this has proved beneficial in the expansion of shares traded.

The Company intends to continue participation in the petroleum industry in Canada but at a curtailed rate until the two levels of government come to an agreement as to the price to be paid to operators for the sale of produced reserves. The implementation of new federal taxes in 1980 must, of necessity, adversely affect the net revenue to the petroleum industry.

We are pleased to report that with staff additions and increased activities in the petroleum industry, the Company was still able to end the 1980 year in a positive cash position and without debt. Working capital further increased recently by approximately \$1,500,000 resulting from a private placement of 300,000 shares at \$5.20 per share.

Your Directors appreciate the interest and support shown by our shareholders over the past year. I also take this opportunity to thank our employees and consultants for their valued efforts in making this a successful year.

In closing, on behalf of myself and the Board, I would like to extend the appreciation of all concerned to Messrs. Gammell and Poscente who recently retired from our Board and to Messrs. Hilland and Allen who are not standing for re-election. Mr. Gammell, for some years, represented Canada Northwest Land Ltd. and Messrs. Poscente and Hilland, two of the founders of the Company, served on the Board since the Company's incorporation. Mr. Allen has provided business advice to the Board since 1975. We were fortunate enough to replace these retiring Directors with Messrs. J.R. Smith and B.J. Todesco, both Officers of Canada Northwest Land Ltd., who bring to the Board valued expertise in the fields of engineering and law.

Respectfully submitted on behalf of the Board.



E.A. BROWNLESS,
President

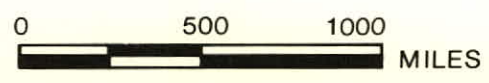
April 24, 1981

RIO ALTO EXPLORATION LTD.



COMPANY ACTIVITIES

- Oil & Gas Wells
- Mines



MINING ACTIVITIES

RUSTY SPRINGS, Yukon

The Company, as Operator of the program funded by our joint venture participant, E. & B. Explorations, Inc., continued to explore the Rusty Springs silver, lead, zinc and copper prospect during the summer of 1980. This prospect comprises 380 mineral claims located 175 miles north of Dawson City, Yukon Territory.

A major program consisting of large core diamond drilling, geological mapping and bulldozer trenching was carried out. Three drill holes encountered mineralized intersections ranging from 51.9 oz. silver, 2.67% copper and 20.8% lead over a vertical length of 6 feet to 25.5 oz. silver, 3.34% copper and 13.72% lead over a vertical length of 5 feet.

In addition, several mineralized occurrences were uncovered by bulldozer trenching. The extent and continuity of this mineralization has not been established by exploration to date. A number of excellent geophysical anomalies at lower elevations on the property were not tested due to inclement weather and wet ground conditions.

For various reasons, including the currently depressed silver market, the Company has now decided not to conduct an exploration program on the property during 1981. The prospect still offers considerable potential to enlarge and define known mineralized zones and discover new zones. Alternatives are being examined to enable continuation of exploration in 1982.



Orma Hill – showing drillsites and camp

STORMY MOUNTAIN, Yukon

The Company and E. & B. Explorations, Inc. continued a joint venture exploration and development program on a block of 112 mineral claims located near Ross River, Yukon, known as the Stormy Mountain prospect.

A major program was conducted during 1980, including diamond drilling, prospecting, geological mapping, bulldozer trenching, geophysical and geochemical surveying and mine reclamation, as well as significant underground bulk sampling.

As a result of this program, some 20,000 tons of high grade molybdenum ore was outlined. The old adit present on the prospect was rebuilt and placed in working order. Geological mapping, prospecting, geophysical and geochemical surveying led to the discovery of several new mineralized showings.

It is the belief of the Company and its Consultants that this old original molybdenum prospect (first explored some 14 years ago and acquired by the Company in 1979) offers the potential for significant reserves which have not been outlined by limited work to date. Our 1981 program relative to this prospect may be curtailed by depressed prices for molybdenum.



Stormy Mountain – new adit



*Rusty Springs – Orma Hill –
Weathered vein showing – Silver Lead ore*

ATLIN, British Columbia

This gold prospect, situated near Atlin in Northwest British Columbia, has been the subject of exploration at various times over a considerable number of years. Additional staking was completed in 1980. An exploration program of prospecting, geochemical surveying, geological mapping and bulldozer trenching was conducted on the prospect during the past field season.

Our 1980 program resulted in the exposure and mapping of three separate quartz vein systems which provided assays of commercial grades of gold mineralization.

Further exploration is planned for the 1981 season as part of our projected program designed to delineate the extent of potential mineralization over the Atlin claim block.

HOYLE TOWNSHIP, Ontario

During 1980, the Company acquired the working interest in some 20 mineral claims and a one-third interest in 16 additional mineral claims comprising a gold prospect in Hoyle Township near Timmins, Ontario. A basic program of line cutting and geophysical (VLF) surveying has now been completed on certain claims. The results of these programs are now being processed for the purpose of determining a drilling program, which is projected for the 1981/82 winter season.

The Timmins camp has long been recognized as one of the most prolific gold producing areas in North America. Recent reported discoveries of gold mineralization to the immediate south and east of the claims make this prospect one of the Company's prime mining exploration projects.

WHITNEY TOWNSHIP, Ontario

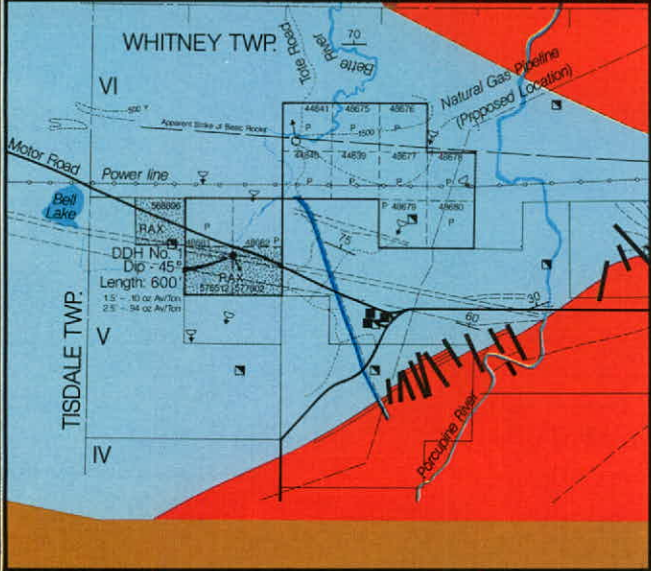
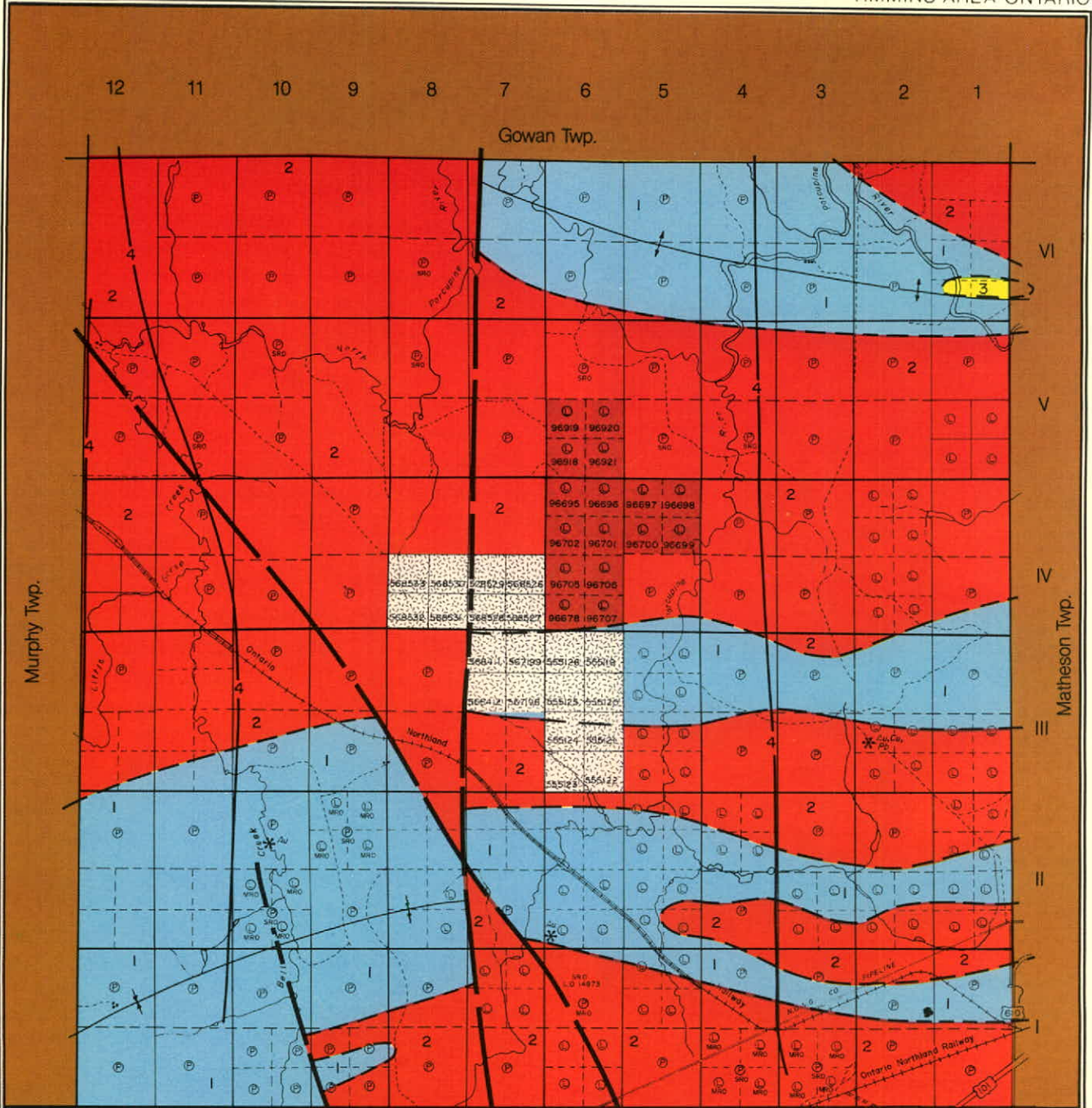
During the past year, as part of its mining activities, the Company also acquired three claims in Whitney Township in the Timmins area. An old shaft exists on the property. Exploration in 1960 showed drill hole assays of .10 oz. gold over 1.5 feet and .94 oz. gold over 2.5 feet. The Company has recently completed a VLF-FM survey on this property and plans are underway for diamond drilling as part of the Company's exploration program in this area.

OTHER MINING ACTIVITIES

The Company will continue during 1981 to participate in a basic exploration program known as the Argent Project located in the Central Yukon. This joint venture is being operated by Welcome North Mines Ltd. in association with Archer, Cathro & Associates, who completed a regional exploration program in the area during 1980. The 1981 program is designed to test anomalies obtained by our previous program. The project area is within the general Keno Hill-Galena Hill producing area of the Yukon. This area has a long history of prolific silver-lead producing camps. We believe our Argent prospect offers good potential for similar mineralization.

The Company continues to maintain 30 mining claims in the Elliot Lake area of Ontario. Uranium mineralization is present on these claims but the current depressed value of this commodity precludes economic development at this time. A portion of the claims adjoin currently operating mines and as such, are of potential positional value. The economic potential of the Company's properties must await developments in the area and price increases for uranium ore.

The Company is presently negotiating to acquire certain other mineral properties in Ontario which offer good potential for economic production of gold.



SYMBOLS

- Building
- ▣ Shaft
- ⊙ Patented Land
- ⊕ Leases
- * Mineral occurrence
- Geological contact
- Fault
- ↑ Anticline
- ↓ Syncline
- Drill hole

LEGEND

- ▨ Rio Alto claims 100%
- ▨ Rio Alto claims 33 1/3%
- EARLY PRECAMBRIAN
MAFIC INTRUSIVE ROCKS
- 4- Diabase: dikes
- METAMORPHOSED MAFIC AND
ULTRAMAFIC ROCKS
- 3 Gabbro, diorite, lamprophyre
- METASEDIMENTS
- 2 Greywacke, siltstone, slate, argillite
and minor pebble conglomerate
- INTERMEDIATE AND MAFIC
METAVOLCANICS
- 1 Intermediate pyroclastic rocks

PETROLEUM & NATURAL GAS

During 1980, the Company acquired petroleum interests in Texas, Kansas, Pennsylvania, Oklahoma and Montana. The Company also continued to actively examine petroleum prospects in Canada as part of its balanced resource program.

The main petroleum and natural gas properties are summarized in this part of the Report.

CANADA

Leduc Area — Alberta

During December, 1980, Rio Alto participated in the drilling of the Rio Alto et al Leduc 7-14-49-26 W4M Nisku oil well. The well was placed on steady production in March of 1981 and is presently producing at 30 to 40 barrels of oil per day. This prospect includes an option to drill two additional wells to earn 680 acres. Other lands in the play may be acquired. The Company has a 10 percent interest in this project before payout which converts to a 20 percent interest after payout. Additional drilling will depend upon a sustained production test from the currently producing well.

Cessford, Alberta

The Cessford A6-30 well continues to be an excellent gas producer and is expected to reach payout in the next few months. Rio Alto Exploration Ltd. will hold a 5.985 percent interest in the well and in three sections of petroleum and natural gas rights after payout. An offsetting well was drilled in March, 1980 and production casing was set through the Basal Quartz zone. This well was not completed due to the lack of a readily available gas market. This situation is expected to change during the year and the Company plans to complete the well in order to begin negotiations for a gas contract.

Hilda, Alberta

A total of 20 infill gas wells were drilled in the Hilda Unit No. 2 bringing the number of producing gas wells to 105. Gas production from this field has continued to maintain a steady cash flow to the Company in the range of \$23,000 annually.

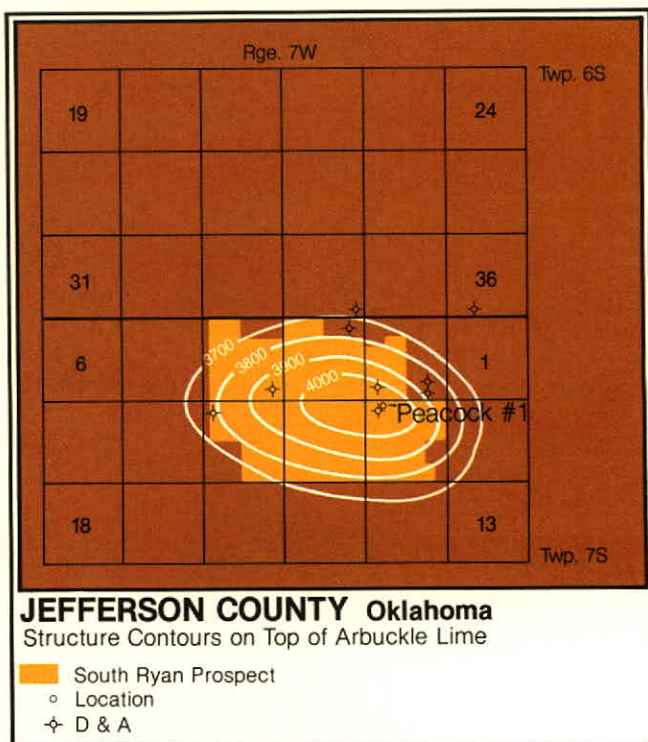
The Company's income is expected to more than double during the next year under the applicable participation Agreement with the drilling fund investors.

UNITED STATES

OKLAHOMA

Jefferson County

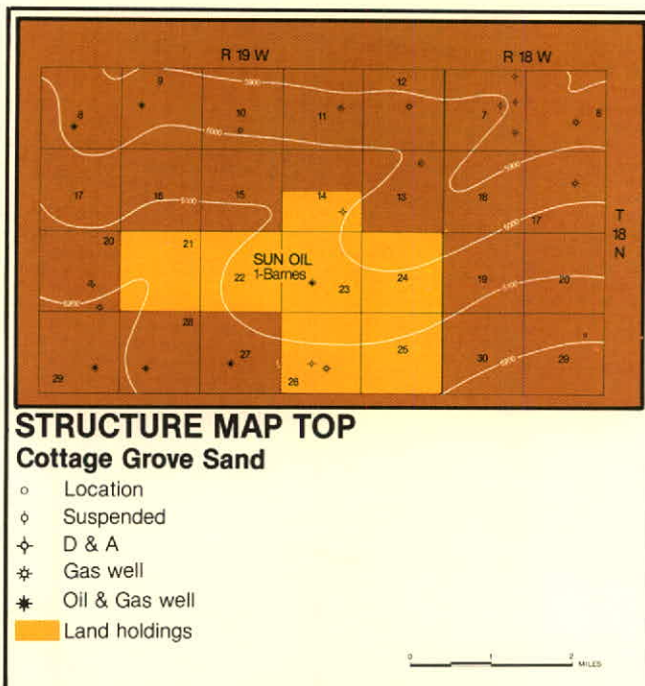
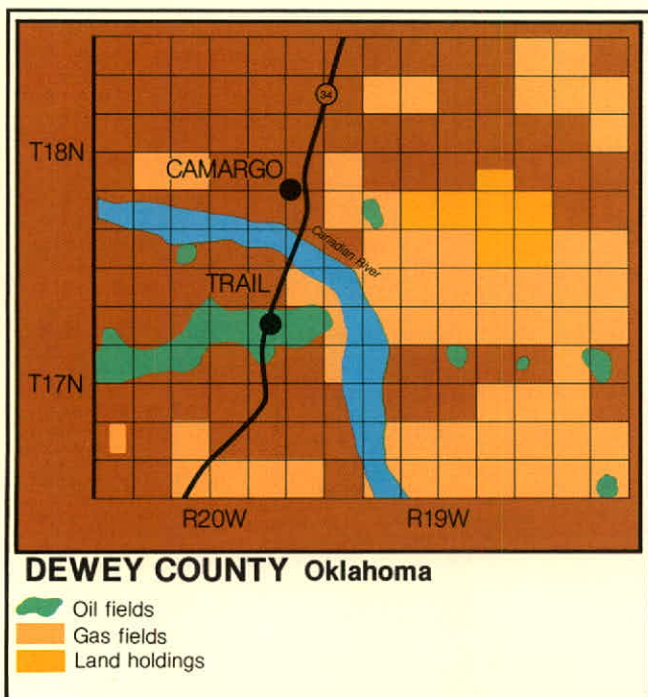
The Peacock #1 well was recently drilled and abandoned at a depth of 5,525 feet in the Arbuckle limestone. This is the deepest well on this large structure and the information gathered from it indicates the main objective, the Brown Zone of the Arbuckle, has been removed by erosion at the site drilled. The Company and its partners are reviewing all information with a view to determining a seismic or other program to locate another well site, or join another Operator in the area under a joint participation arrangement. The Company has an 18.125 percent interest in approximately 2,500 acres in this prospect.



Dewey County

The Company has acquired an 8.33 percent working interest in approximately 2,600 acres in Dewey County, Oklahoma, sometimes known as the Camargo prospect, situated approximately 115 miles northwest of Oklahoma City.

This prospect has potential for thick gas pay in the Mississippian Osage formation at a depth of 13,700 feet with a reserve target of 17 bcf per 640 acres. The Pennsylvanian Cottage Grove formation offers potential oil reserves of 192,000 barrels per 160 acres. The Operator expects to commence drilling the initial exploratory well by the middle of April, 1981.



PENNSYLVANIA

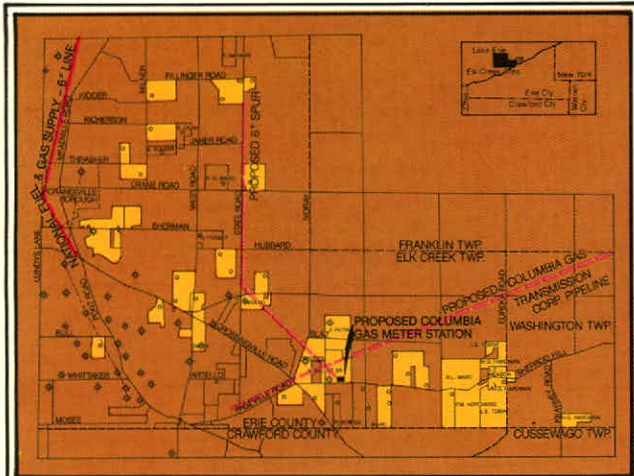
Union City

The Sills #1 and Harris wells, part of the three well program, have been drilled and completed as Medina gas wells. Flow lines have been laid to the Columbia Gas compressor station and these wells will be placed on production in the very near future. The Company holds a 10 percent working interest in this prospect.

Elk Creek

Five wells have been completed as gas wells in the Medina Lockport formation, with production rates ranging up to 1.33 MMcf/day. The Company and partners plan to drill an additional five wells in May of 1981. After this additional drilling is completed, the ten wells will be placed on production at the same time.

The Company has a 10 percent working interest in this prospect, which has the potential for completing some 35 wells.



ERIE COUNTY Pennsylvania

Elk Creek Township Prospect

- 828 Reference No.
- 2MMCF/D Flow Rate
- Abandoned Well
- Company Interest Lease & Reference No.
- Proposed Location



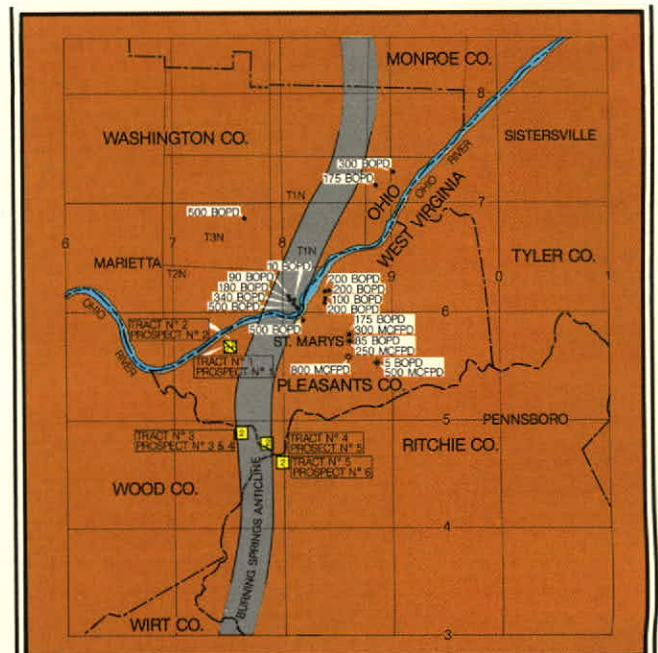
Gas well Elk City, Pennsylvania

WEST VIRGINIA

Burning Springs Anticline

The Company is participating with Axaton Trading Corporation in the drilling of six wells on the Burning Springs Anticline in West Virginia. Two wells have been completed as oil wells in the sandstones of the Devonian Brown Shale formation. The Shields #1137 well has been flowing at a rate of up to 36 barrels of oil per day. The Elliott #1191 well, also drilled to the Devonian sandstones, is in the process of being completed for pumping operations.

Production casing has been run in two other wells on this prospect, which will be completed as soon as a service rig is available leaving the remaining two wells to be drilled when weather permits. The Company has a 10 percent working interest in these wells.



WEST VIRGINIA

LEGEND

- Oil Well
- * Oil & Gas Well
- ☆ Gas Well
- Numbered Lines Indicate the 10,000 Metre Transverse Grid (Zone 17)

KANSAS

Mann Lease

Production from this oil property was shut down due to high water cut. The current Operator believes this to be caused by mechanical problems. The working interest owners are currently reviewing all data from operations to date. It is expected that Rio Alto's American subsidiary will assume the Operator's duties with a view to achieving regular economic production.

Russell & Barton County

Two oil wells have been drilled in this area of Kansas. The Hoffman #1 was completed in the Kansas City sand of Pennsylvanian age. This well is currently producing at marginal rates but a second well, which was drilled to the Arbuckle, encountered ten feet of good porosity with oil staining. A test of this zone will be conducted as soon as a service rig is available. Rio Alto holds a 10 percent working interest in this Kansas prospect.

OTHER ACTIVITIES

During the early part of 1980, the Company sold a portion of its investment in Cultus Pacific N.L. for the sum of \$148,884.00, the proceeds of which were used for activities in the United States. The net gain on the sale of these shares amounted to \$134,523.00.

In the beginning of this Report, mention was made of the recent sale of 300,000 shares at a price of \$5.20 per share. As part of the subject private placement, warrants were issued to the purchasers of the shares on the basis of two warrants for each three shares purchased. These warrants are exercisable at a price of \$5.72 per share to February 1, 1982 and thereafter at \$6.50 per share to February 1, 1983 when they will expire.

The Company is now in a position to further expand its activities in the petroleum and natural gas industry in the continental United States. We are presently examining certain oil and gas prospects with a view to participating with established independent Operators in prospects offering potential for significant reserves. The Company is also examining low risk ventures with a view to building an early cash flow.

It should be pointed out that our first entry into the United States took place during 1980. Time is required to build up a balanced land inventory as well as establish participation with experienced Operators in the various areas of interest.

RIO ALTO EXPLORATION LTD.

CONSOLIDATED STATEMENT OF EARNINGS YEAR ENDED DECEMBER 31, 1980

	<u>1980</u>	<u>1979</u>
Income		
Oil and gas sales	\$ 199,955	\$ 270,674
Preproduction royalties	18,000	18,000
Interest, management fees and other	117,330	69,423
	<u>335,285</u>	<u>358,097</u>
Expenses		
Production	71,940	79,794
Cost of mining properties abandoned	114,404	—
General and administrative	314,615	137,918
Interest on long-term debt	—	9,608
Depreciation	7,879	10,229
Depletion	24,788	20,000
	<u>533,626</u>	<u>257,549</u>
Earnings (loss) before the following	<u>(198,341)</u>	100,548
Gain on sale of oil and gas properties	189,635	—
Gain on sale of investment	147,918	—
	<u>337,553</u>	<u>—</u>
Earnings before income taxes	<u>139,212</u>	100,548
Income taxes - current (recoverable)	774	(58,395)
- deferred	51,787	104,413
	<u>52,561</u>	<u>46,018</u>
Net earnings	<u>\$ 86,651</u>	<u>\$ 54,530</u>
Earnings per share	<u>\$ 0.02</u>	<u>\$ 0.02</u>


The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET DECEMBER 31, 1980

	ASSETS	
	<u>1980</u>	<u>1979</u>
Current assets		
Cash	\$ 188,765	\$ 48,372
Term deposits	256,368	288,000
Accounts receivable	734,888	614,005
Due from directors and employees	80,502	45,403
Income taxes recoverable	—	54,393
	<u>1,260,523</u>	<u>1,050,173</u>
Property and equipment (note 2)	<u>2,122,404</u>	<u>1,656,012</u>
Other assets	<u>59,841</u>	<u>60,986</u>
	<u>\$3,442,768</u>	<u>\$2,767,171</u>

Approved on behalf of the Board,

 , Director

 , Director

The accompanying notes are an integral part of these consolidated financial statements.

LIABILITIES

	<u>1980</u>	<u>1979</u>
Current liabilities		
Accounts payable and accrued liabilities	\$ 646,259	\$ 236,712
Long-term debt	<u>—</u>	<u>50,338</u>
Deferred income taxes	<u>156,200</u>	<u>104,413</u>
Contingent liabilities (note 4)		

SHAREHOLDERS' EQUITY

Share capital (note 3)		
Authorized		
1,000,000 preferred shares with a nominal or par value of \$20 per share		
6,000,000 common shares of no par value		
Issued		
3,706,822 common shares (1979 - 3,573,822 shares)	2,644,415	2,466,465
Deficit	<u>(4,106)</u>	<u>(90,757)</u>
	2,640,309	<u>2,375,708</u>
	<u>\$3,442,768</u>	<u>\$2,767,171</u>

CONSOLIDATED STATEMENT OF DEFICIT YEAR ENDED DECEMBER 31, 1980

	<u>1980</u>	<u>1979</u>
Deficit, beginning of year	\$ (90,757)	\$ (145,287)
Net earnings	86,651	54,530
Deficit, end of year	<u>\$ (4,106)</u>	<u>\$ (90,757)</u>

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION YEAR ENDED DECEMBER 31, 1980

	<u>1980</u>	<u>1979</u>
Working capital was provided by		
Proceeds on sale of property and equipment	\$ 535,532	\$ —
Proceeds on sale of investment	162,280	—
Proceeds on issue of share capital	177,950	1,020,284
Increase in long-term debt	—	50,338
	<u>875,762</u>	<u>1,070,622</u>
Working capital was used for		
Working capital used by (provided by) operations	54,447	(189,172)
Additions to property and equipment		
Canada	317,439	411,682
U.S.A.	639,518	—
Reduction of long-term debt	50,338	—
Other	13,217	6,752
	<u>1,074,959</u>	<u>229,262</u>
Increase (decrease) in working capital	(199,197)	841,360
Working capital (deficiency), beginning of year	813,461	(27,899)
Working capital, end of year	<u>\$ 614,264</u>	<u>\$ 813,461</u>

The accompanying notes are an integral part of these consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 1980

1. Summary of significant accounting policies

(a) Principles of consolidation

The consolidated financial statements include the accounts of the company and the accounts of its subsidiaries all of which are wholly owned.

(b) Oil and gas operations

The company follows the full cost method of accounting for oil and gas operations wherein all costs relating to the exploration for and development of oil and gas reserves are capitalized and accumulated in cost centres (Canada and the United States) and depleted on the unit of production method based on estimated recoverable reserves of oil and gas as determined by independent and company engineers. Proceeds on minor property sales are credited to the net book value of property and equipment without recognizing any gain or loss on disposition. Gains or losses on major property sales are recognized in the earnings statement.

(c) Joint venture accounting

A substantial portion of the company's exploration and production activities related to oil and gas, are conducted jointly with others and accordingly the accounts reflect only the company's proportionate interest in such activities.

(d) Mining operations

The company follows the practice of capitalizing all acquisition and exploration costs relating to mining operations on a prospect area. If a prospect area is subsequently abandoned or sold, all capitalized costs relating to the area are charged to earnings. Realization of the amounts represented by mining properties is dependent upon future development, since the properties are substantially unexplored or undeveloped.

(e) Depreciation

Depreciation of production equipment is provided for on the unit of production method. Depreciation of sundry equipment is provided for on the declining balance method at rates varying from 20% to 30% per annum.

(f) Translation of foreign currencies

The accounts of the foreign subsidiary have been translated to Canadian dollars on the following basis: current assets and current liabilities at the rate of exchange in effect at the year end; other assets and liabilities at the rate of exchange in effect at the date of settlement. Revenue and expense items are translated using average rates of exchange prevailing throughout the year.

(g) Earnings per share

Basic earnings per share have been calculated using the weighted average number of common shares outstanding during the year.

The exercising of share options would not be dilutive.

2. Property and equipment

The following is a summary of property and equipment:

	1980			1979
	Cost	Accumulated Depreciation and Depletion	Net	Net
Oil and gas properties including exploration and development costs thereon - Canada	\$ 246,393	\$ 37,932	\$ 208,461	\$ 451,413
- U.S.A.	507,138	—	507,138	—
Mining properties including exploration cost thereon	1,222,893	—	1,222,893	1,124,378
Production equipment				
Canada	52,277	14,558	37,719	61,243
U.S.A.	132,380	—	132,380	—
Sundry equipment	34,185	20,372	13,813	18,978
	<u>\$2,195,266</u>	<u>\$ 72,862</u>	<u>\$2,122,404</u>	<u>\$1,656,012</u>

3. Share capital

(a) During the year, the company increased its authorized share capital by the creation of 1,000,000 preferred shares with a nominal or par value of \$20 per share.

(b) During 1980, the company issued 133,000 additional common shares for \$177,950 as follows:

	1980		1979	
	Number of shares	Amount	Number of shares	Amount
Exercise of employee share options	18,000	\$ 32,450	1,900	\$ 2,850
Exercise of other share options	110,000	145,500	—	—
Shares issued in recognition of service	5,000	—	—	—
Exercise of share purchase rights, net of issuance costs	—	—	574,487	786,434
Shares issued as consideration for mining and oil and gas properties	—	—	125,000	231,000
	<u>\$ 133,000</u>	<u>\$ 177,950</u>	<u>\$ 701,387</u>	<u>\$1,020,284</u>

(c) At December 31, 1980, 273,000 common shares were reserved for options as follows:

(i) Directors, officers and employees

Number of Shares	Price	Date Granted	Date Exercisable To
30,000	\$2.00	February 16, 1979	February 16, 1981
4,500	1.65	November 26, 1979	November 26, 1982
100,000	1.65	December 10, 1979	December 10, 1983
24,500	2.80	October 3, 1980	1/3 annually on a cumulative basis until October 3, 1983
<u>159,000</u>			

(ii) Other

During the year, the company granted an option to a joint venture partner to purchase 100,000 common shares at a price of \$3.60 per share as partial consideration for the partner incurring exploration and development expenditures on certain mining properties of the company. The option is exercisable on or before December 31, 1983 on a pro-rata basis with the amount of exploration and development expenditures incurred.

Options to purchase 14,000 common shares were granted on August 5, 1980 as partial consideration for the acquisition of certain mining properties. The options may be exercised on or before August 4, 1981 at a price of \$3.00 per share. From August 5, 1981 to August 4, 1982, the options may be exercised at a price equal to the average trading value of the company's common shares as of the date on which the options are exercised.

4. Contingent liabilities

- (a) A subsidiary company has guaranteed the bank indebtedness of the participants of a joint venture in the amount of \$104,575. This bank indebtedness is also secured by the oil and gas properties of the joint venture and revenue from production.
- (b) A subsidiary of the company is a co-defendant in a legal action arising from damages to a drilling rig. The amount claimed is \$391,695 and the company's legal counsel is unable, at the present time, to give any opinion with respect to the merits of this action. Settlement, if any, that may be made with respect to this action is expected to be accounted for as a prior period adjustment to these financial statements.

5. Remuneration of senior officers and directors

The total remuneration paid to directors and officers of the company (including the five highest paid employees) amounted to \$78,320 (1979 - \$40,308).

6. Subsequent event

Subsequent to December 31, 1980, the company approved the issuance of 300,000 common shares by way of a private placement at a price of \$5.20 per share and the issuance of share purchase warrants entitling the holders to purchase 225,000 common shares at a price of \$5.72 per share on or before February 1, 1982 and at a price of \$6.50 per share on or before February 1, 1983. The issue of these shares is subject to regulatory approval.

AUDITORS' REPORT

To the Shareholders
Rio Alto Exploration Ltd.

We have examined the consolidated balance sheet of Rio Alto Exploration Ltd. as at December 31, 1980 and the consolidated statements of earnings, deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1980 and the results of its operations and changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Alberta
February 6, 1981

Collins Barrow
CHARTERED ACCOUNTANTS
